Succession Plan

Although some IRA owners name a trust or a charity as beneficiary of their IRA, most will want to name a person or persons. Generally, you should avoid naming your estate as beneficiary because your IRA will then go through probate to the heirs designated in your will. That needlessly delays distribution of the IRA's funds and the IRA may not end up in the hands of the people you intended.

Naming your estate as IRA beneficiary also undermines an inherited IRA's tax deferral, potentially costing your survivors many thousands of dollars in tax-deferred growth. Depending on the age of the owner at death, the contents of an IRA passing to an estate must be distributed either within five years or the remaining life expectancy of the deceased owner.

On the other hand, designated IRA beneficiaries can stretch out their required distributions over their life expectancies. With a 40-year life expectancy, for example, the required first-year distribution would be only 2.5 percent, leaving the rest of the IRA intact.

In-Convenient

If you get one of those credit-card "convenience check" offers in the mail, shred the whole package. They usually come with high fees and low consumer protections.

In a typical solicitation, you're told you can transfer your outstanding credit card balances to a low-rate card. However, the promised low rate won't last long. In addition, these checks often have a $10 minimum transaction fee--even if you write a check for only $25 or $50.

If you use a convenience check for a cash advance, as is frequently suggested, expect to be hit with a lofty interest rate, much higher than the rate on purchases. Nationally, the average cash-advance rate for these checks is nearly 20 percent.

Worst of all, you could face financial problems if a convenience check is lost or stolen. The federal law that limits losses to $50 for improper use of a credit card does not necessarily apply to convenience checks. Similarly, you might not be entitled to relief on defective merchandise, under the Truth in Lending Act.

Thus, when you see something like this in your mailbox, it's better shred than read.

Balancing Act

According to Ibbotson Associates, Chicago, a portfolio consisting of 50 percent stocks, 35 percent bonds, 10 percent real-estate investment trusts (REITs), and 5 percent commodities would have beaten the typical 60-40 stock-bond split, over the past 33 years.

The inclusion of real estate and commodities would have lifted annualized returns from 10.7 percent to 11.3 percent. In addition, the more diversified portfolio would have had less year-to-year volatility.

The 50-35-10-5 portfolio would have returned slightly more than an all-stock portfolio, since 1972--with much less volatility.

The easiest way to add REITs and commodities to your portfolio is through mutual funds. Morningstar, a Chicago firm that tracks funds, offers "analyst picks" in these categories:

Real estate: JP Morgan U.S. Real Estate Fund and Third Avenue Real Estate Value Fund.

Commodities: PIMCO Commodity Real Return Strategy Fund.

After a few good years, REIT and commodity prices are very high. Therefore, if you want to add funds in these categories to your portfolio, you might invest in them over a period of a few years. That will reduce the risk of investing a great deal at what proves to be a market top.

Help Wanted

Will investing in a 529 plan reduce eligibility for college financial aid? When it comes to the financial aid formulas, 529 plans are not as bad as custodial accounts.

In essence, the standard financial aid form determines an estimated family contribution (EFC). If the cost of a particular college exceeds the EFC, some aid may be offered.

Generally, 529 plans are treated as parental assets, which are assessed at a much lower rate than student assets. (Individual colleges may have their own policies on how 529 assets are treated.)

Custodial accounts, on the other hand, are treated as student assets, which are expected to be spent for college, thus reducing the need for aid.

Because 529 plans don't generate current income, any inside buildup won't affect the aid formulas. What happens, though, when money is withdrawn to pay college bills? Currently, distributions from 529 plans aren't counted as a student's income but that may change in the future.

If those distributions must be included, one strategy is to minimize distributions until January of the student's junior year. After that, no more financial aid forms are to be filled out and the income won't be counted.

Setting Limits

When you buy or sell stocks through a broker, there are two types of orders you can place: A market order obligates you to buy or sell at the current trading price. A limit order puts a cap or a floor on your trading price.

Savvy investors may prefer to use limit orders. Suppose, for example, you like a company's prospects but you think the current $100 trading price is too high. You could enter a limit order at, say, $90 or $80. If the stock falls to that price, you'll buy it. Thus, if you can be patient, a limit order may allow you to purchase that stock at a favorable price.

Limit orders also can be used on the sell side. You might, for example, set target prices for stocks you own, placing limit orders to get out at those prices. At the same time, you can place stop-loss orders. Say you buy a stock for $80; you might want to enter a stop-loss order at $70, to limit your downside in the stock. Many investors are reluctant to take losses so using stop-loss orders can be an effective way of removing emotional barriers. You can sell, take a tax loss, and reinvest in another stock that may offer better prospects.

One strategy is to raise your stop-loss order if the stock moves up. Suppose, for example, that $80 stock mentioned above goes up to $100. You might raise your stop-loss from $70 to $90, to lock in a gain from your original $80 purchase price. If the stock keeps moving up, you can keep moving up your stop-loss order.

If you use limit orders, don't forget about them. Say you buy a stock at $80 and have a $120 price target so you place an order to sell at $120. The stock goes nowhere so you decide to sell your shares. Unless you cancel your order to sell at $120, that order may remain on the books. If the stock moves up to $120 one day your broker may enter your sell order, which would be a short sale, a risky strategy that may prove to be very costly.